



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0490	Title:	Increase class eight business equipment tax exemption
Primary Sponsor:	Brown, Roy	Status:	As Introduced

- | | | |
|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$16,013,520	\$44,469,112	\$42,154,847	\$42,790,825
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$2,579,535)	(\$6,748,757)	(\$6,322,523)	(\$6,500,797)
State Special Revenue	(\$213,968)	(\$585,658)	(\$609,891)	(\$635,118)
Net Impact-General Fund Balance:	<u>(\$18,593,055)</u>	<u>(\$51,217,869)</u>	<u>(\$48,477,370)</u>	<u>(\$49,291,622)</u>

Description of fiscal impact:

This bill provides an exemption from taxation of the first \$5 million in market value of class 8 property for each individual taxpayer. Under current law, the class 8 property of each individual taxpayer with a total class 8 property market value of \$20,000 or less (threshold) is exempt from taxation. The bill provides reimbursement to local governments, school districts, tax increment financing districts (TIFs), and the 6 mill university levy for lost revenues, subject to corresponding appropriation of reimbursements.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

Reduction in Taxable Value of Class 8 Property

1. The bill provides an exemption from taxation for the first \$5 million in market value of class 8 property for each individual taxpayer. This replaces the provision in current law which provides that the class 8 property of each individual taxpayer with a total class 8 property market value of \$20,000 (threshold) or less is exempt from taxation.

2. The \$5 million exemption would begin in TY 2010. The impact would start in FY 2010 for personal property not liened to real property and in FY 2011 for all other property.
3. In TY 2008 the statewide average consolidated mill levy for class 8 property was 515.93 mills. The average mill for county and other local governments was 414.93 (515.93 – 95.00= 6.00). In TY 2008 local school taxes were collected with a statewide weighted average of 227.64 mills. Other local governing entities levied an average of 187.29 local mills.
4. To calculate revenue impact to local governments and schools the taxable value reduction of class 8 property needs to exclude the taxable value of property in TIF districts.
5. The following table illustrates the effects that the change in the exemption to \$5 million would have had on TY 2008 (FY 2009) market value, taxable value, and estimated tax revenues for the general fund (statewide 95 education mills), the university state special revenue fund (6 mills), tax increment financing districts (TIFs), county and other local government revenues.

**SB 490: Change in Class 8 Taxable Value and Revenue
Due to Increased Exemption if Implemented in TY 2008**

	Current Law	Proposed Law	Reduction
Number of Taxpayers	18,066	94	(17,972)
Impact of Change in Threshold			
Market Value	\$5,685,495,953	\$2,705,414,275	(\$2,980,081,678)
Taxable Value at 3% Tax rate	\$163,140,404	\$73,737,954	(\$89,402,450)
Effective Tax Rate	2.87%	2.73%	
Effect on Taxes Collected			
Taxable Value	\$163,140,404	\$73,737,954	(\$89,402,450)
Estimate of taxable value in TIFs	\$14,036,395	\$4,452,765	(\$9,583,630)
Taxable Value Net of TIFs	\$149,104,009	\$69,285,189	(\$79,818,820)
Statewide Mills			
Estimated 6 Mill Tax (includes TIF property)	\$978,842	\$442,428	(\$536,414)
Estimated 95 Mill Tax	\$14,291,917	\$6,641,124	(\$7,650,793)
Estimated Total Statewide Mills	\$15,270,759	\$7,083,552	(\$8,187,207)
Local mills			
Estimated Local School Tax (227.64 mills)	\$33,942,037	\$15,772,080	(\$18,169,956)
Estimated Local Government Tax (187.29 mills)	\$27,925,690	\$12,976,423	(\$14,949,267)
Estimated Total Local Mill Tax	\$61,867,726	\$28,748,504	(\$33,119,223)
Estimated TIFs tax (509.93 mills)	\$7,157,579	\$2,270,598	(\$4,886,981)
Total Tax	\$84,296,064	\$38,102,654	(\$46,193,410)

Increase in Class 12 Property Tax Rate

6. This bill will affect the calculation of the class 12 tax rate in future years. The class 12 (railroad and airline property) tax rate is calculated as the statewide average tax rate for all other commercial and industrial property in the state (classes 4 (commercial), 8, 9, 13, 14, 15, and 16). Class 8 property has the lowest tax

rate among the classes of commercial property used in this calculation. Decreasing the amount of class 8 property used in the calculation will result in the tax rate for class 12 being increased.

7. The TY 2008 tax rate for class 12 (railroad and airline) property was 3.44%. Recalculating the tax rate with the reduced market and taxable values under this bill, the tax rate would have been 3.51%
8. No class 12 property is located within tax increment financing districts. Therefore, the impact of the class 12 tax rate change would be limited to the state, local governments, and school district tax revenue.
9. In TY 2008 the statewide average consolidated mill levy for class 12 property was 508.59 mills. The class 12 average mill levies for county and other local governments was 407.59 (508.59 – 95.00- 6.00). In TY 2008 local school taxes made up (231.59 mills) 56.82% of local mill taxes assessed on class 12 property. Other local governing entities made up the remaining 43.18% (176.00 mills) of local mill taxes.
10. The following table shows the effect the increase in the tax rate would have had on TY 2008 (FY 2009) market value, taxable value, and estimated tax revenues for the general fund (statewide 95 education mills), the university state special revenue fund (6 mills), county and other local government revenues

**SB 490: Change in Tax Year 2008 Railroad and Airline Property
(Class 12) Taxable Value and Revenue**

	Current Law	Proposed Law	Increase
Total Market Value	\$1,266,493,553	\$1,266,493,553	
Tax rate	3.44%	3.51%	
Total Taxable Value	\$43,567,378	\$44,453,924	\$886,545
Statewide Mills			
Estimated 95 Mill Tax	\$4,138,901	\$4,223,123	\$84,222
Estimated 6 Mill Tax	\$261,404	\$266,724	\$5,320
Estimated Total Statewide Mills	\$4,400,305	\$4,489,847	\$89,542
Estimated Local Tax			
Estimated Local School Tax Mills (231.60 mills)	\$9,917,678	\$10,119,491	\$201,813
Estimated Local Government Tax (176 mills)	\$8,159,734	\$8,325,775	\$166,041
Estimated Total Local Mill Tax	\$17,757,628	\$18,118,974	\$361,346
Total Tax	\$22,157,933	\$22,608,821	\$450,888

Increase in Railroad Cat Tax Collections

11. Property of railroad car companies (companies other than railroads that own railroad cars) is also class 12 property. All property tax revenue from these companies goes to the state general fund. In TY 2008, the market value for these companies was \$108,406,430. Taxable value was \$3,729,181 (\$108,406,430 x 3.44%). The mill levy applied to this taxable value was 524.79 (statewide average mill levy for commercial property for the previous tax year). Taxes levied on this property were \$1,957,037 (\$3,729,181 x 524.79 / 1,000). This bill would increase TY 2008 taxable value to \$ 3,805,066, an increase of \$ 75,885 (\$3,805,066 - \$3,729,181). This would increase TY 2008 (FY 2009) state general fund revenues from these companies to \$1,996,860, an increase of \$39,823 (\$1,996,860 - \$1,957,037).

Business Tax Revenue Increase

12. With lower property taxes, businesses will have lower property tax expenses to deduct in calculating taxable net revenue. The estimated reduction in net property tax is calculated based on the table in assumption 17 below.

13. Corporations that do business in Montana and other states are required to report their Montana property on their corporation license tax returns. Of this property, 66.65% was reported by corporations that had positive taxable income. It is assumed that the same proportion of total business property is owned by businesses with positive net income.
14. Each calendar year, the reduction in business expenses is half of the reduction in property tax for profitable businesses for the same numbered fiscal year plus half of the reduction for the next fiscal year.
15. The corporation license tax rate is 6.75%. It is assumed that the average marginal tax rate on business income reported on individual income tax returns is also 6.75%.
16. Businesses frequently use the option for an extended deadline for filing tax returns. Because of this, the changes in tax liability will be reported on tax returns filed over the course of the following calendar year, with half of the change coming in the fiscal year including the last half of the tax year and half coming in the next fiscal year. The result is presented in the following table:

SB 490: Estimated Business Tax Revenue Increase

Property Tax Reduction	TY 2010	TY 2011	TY 2012	TY 2013
State	(6,076,741)	(9,072,549)	(9,449,767)	(9,842,438)
Local Government	(14,114,849)	(16,641,271)	(17,330,474)	(18,047,934)
Schools	(17,155,771)	(20,226,488)	(21,166,610)	(22,038,641)
TIFs	(4,641,757)	(8,187,615)	(8,523,308)	(5,835,425)
Reduction in Property Tax	(\$41,989,118)	(\$54,127,924)	(\$56,470,159)	(\$55,764,438)
Corp Tax Collections	\$944,519	\$2,162,093	\$2,487,835	\$2,524,647
Fiscal Year Adjustment	FY 2010	FY 2011	FY 2012	FY 2013
Estimated Increase in Corporation Tax	\$472,259	\$1,553,306	\$2,324,964	\$2,506,241

Projection of State Tax Revenue Impact

17. The HJR 2 (FY 2010 & FY 2011) and Office of Budget and Program Planning (FY 2012 & FY 2013) forecasts for growth of class 8, class 12 and rail car property are presented below. These growth rates are used to project the fiscal impact for FY 2010 through FY 2013.

HJR 2 and OBPP Growth Rates for Property Affected by SB 490

Property Type	FY 2010	FY 2011	FY 2012	FY 2013
Class 8	4.97%	4.97%	4.10%	4.10%
Class 12	0.75%	0.76%	0.00%	0.00%
Rail car tax	5.96%	1.79%	0.50%	0.60%
Weighted Average Growth Rate	4.70%	4.56%	3.68%	3.69%

18. The \$5 million exemption would begin with TY 2010. The impact would start in FY 2010 for personal property not liened to real property (38% of TY 2009 property) , and in FY 2011 for all property
19. These projections are further adjusted for the fiscal year receipt of property tax. Most property taxes are paid in November and May of the fiscal year following assessment. However, under the provisions of 15-16-119, MCA, owners of personal property that is not liened to real property pay property taxes 30-days

after assessments are mailed in March. This means that not liened to real property taxes are paid in the fiscal year they are billed. In TY 2008, class 8 property not liened to real property made up 38% of the total value of class 8 property.

20. Based on preceding tax reduction estimates for FY2009 and the growth rates above, the following table shows the anticipated reduction in state revenue under SB 490.

SB 490: Net Reduction in State Tax Revenue

Revenue	FY 2009	Base	FY 2010	FY 2011	FY 2012	FY 2013
General Fund						
Class 8	(\$7,650,793)	(\$8,031,037)	(\$3,051,794)	(\$8,430,180)	(\$8,775,817)	(\$9,135,626)
Class 12	\$84,222	\$84,854		\$85,499	\$85,499	\$85,499
Rail Car Tax	\$39,823	\$41,886		\$42,619	\$42,832	\$43,089
Corporation License Tax	-		\$472,259	\$1,553,306	\$2,324,964	\$2,506,241
Balance	(\$7,526,748)	(\$7,904,298)	(\$2,579,535)	(\$6,748,757)	(\$6,322,523)	(\$6,500,797)
State Special Revenue						
Class 8	(\$536,414)	(\$563,074)	(\$213,968)	(\$591,059)	(\$615,292)	(\$640,519)
Class 12	\$5,320	\$5,360		\$5,401	\$5,401	\$5,401
Total	(\$531,094)	(\$557,714)	(\$213,968)	(\$585,658)	(\$609,891)	(\$635,118)

Reimbursements to Local Jurisdictions for the Loss of Class 8 Taxable Value

21. The bill provides reimbursement to local governments, school districts, TIF districts, and the university system for lost TY 2010 property tax revenue, subject to appropriation of these reimbursements (see contingent voidness clause assumption 36)
22. For purposes of this fiscal note, it is assumed that these reimbursements will be provided from the general fund. .
23. The bill amends 15-10-420, MCA, to limit local government's ability to increase the number of mills to account for a loss of tax base because of legislative action that is reimbursed.
24. Local government TY 2010 reimbursements would grow by the entitlement share growth rate. These are estimated from executive budget recommendations for the 2011 biennium. For the 2013 biennium, Global Insight projections of state personal income growth and growth of gross state product were used in the entitlement share formula to estimate growth rates. These estimates are presented below:

Projected Entitlement Share Growth Rates

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Budgeted Entitlement Share Payments	\$92,332,358	\$96,065,109	\$100,497,690		
Estimated Growth Rate		4.043%	4.614%	3.852%	2.903%

25. The following table shows the calculation of reductions to and transfers from the state general fund based on the TY 2008 (FY 2009) property tax incomes had this bill been law. These estimates are projected based on HJR 2 growth rates through FY 2011. For FY 2012 onward per section one of the bill reimbursements to local governments subsequently grow by the estimated entitlement share growth rates developed in assumption 25 above. University and TIF reimbursements are held constant at their TY 2010 (FY 2011) levels. School district reimbursements grow at the school block grant growth rate of 0.76%.

26. This fiscal note assumes local governments, the university system, School districts and TIFs would receive money from state appropriations annually for the reduction in property tax revenue under this bill. However, there is no appropriation or transfer defined in the bill.
27. The bill provides for the calculation and disbursement of reimbursements for property tax revenue losses for personal property not liened to real property that occur in FY 2010 (38% of class 8 property).
28. Based on preceding calculations, the following table shows reimbursements due to the net change in class 8 and class 12 taxable value.

**SB 490: Reimbursement to Local Governments, School Districts, TIF districts
and the University System for the Loss of Taxable Value**

Reimbursement Jurisdiction	TY 2008	(Base)	FY 2010	FY 2011	FY 2012	FY 2013
Local Governments						
Entitlement Share Growth					3.852%	2.903%
Class 8 Property	\$14,949,267	\$15,692,245	\$5,963,053	\$16,472,150		
Class 12 property	(\$166,041)	(\$167,286)	\$0	(\$168,558)		
Total		\$15,524,959	\$5,963,053	\$16,303,592	\$16,931,606	\$17,423,131
School Districts						
School Block Grant Growth					0.76%	0.76%
Class 8 Property	\$18,169,956	\$19,073,003	\$7,247,741	\$20,020,931		
Class 12 property	(\$201,813)	(\$203,327)	\$0	(\$204,872)		
Total		\$18,869,676	\$7,247,741	\$19,816,059	\$19,966,661	\$20,118,408
The University System						
Class 8 Property	\$536,414	\$563,074	\$213,968	\$591,059		
Class 12 property	(\$5,320)	(\$5,360)		(\$5,401)		
Total			\$213,968	\$585,658	\$585,658	\$585,658
Tax Increment Districts						
Class 8 Property	\$4,886,981	\$5,129,864	\$1,949,348	\$5,384,818	\$0	\$0
Class 12 property	\$0	\$0	\$0	\$0	\$0	\$0
Total		\$5,129,864	\$1,949,348	\$5,384,818	\$5,384,818	\$5,384,818
Total Reimbursements			\$15,374,111	\$41,504,469	\$42,283,085	\$42,926,357

Department of Revenue Administrative Expenses

29. The DOR estimates that 4.00 FTE will be required to administer the provisions of this bill.
30. The Property Assessment Division will require 3.00 FTE (pay band 7) to conduct field audits and other analyses to ensure that all class 8 property is correctly identified with owners for purposes of ensuring that the \$5 million exemption is correctly applied for all class 8 property owners, and that the value of all exemptions is correctly allocated to local governments and schools for purposes of the calculation of reimbursements.
31. The requirement that the reimbursements be separately calculated for personal property liened to real property and personal property not liened to real property also increases workload. DOR estimates that 1.00 FTE will be required by the Tax Policy and Research Bureau for FY 2010 only in order to develop the mechanisms and procedures necessary to ensure that the \$5 million exemption is correctly applied for

all owners, and that the value of all exemptions is correctly allocated to local governments and schools for purposes of the calculation of reimbursements.

32. The Orion computer system will require enhancements in order to correctly allocate exempted amounts to local governments, TIFs, and schools. The estimated cost for these enhancements is \$493,020.
33. Estimated annual taxpayer education costs to ensure compliance are \$15,200.
34. The following table summarizes DOR's administrative costs for this bill.

SB 490: Department of Revenue Administrative Costs

	FY2010	FY2011	FY2012	FY2013
FTE	4.00	3.00	3.00	3.00
PAD - three pay band 7	\$207,509	\$207,509	\$207,509	\$207,509
TPR - one pay band 6	\$56,963	\$0	\$0	\$0
Total Personnel Services	\$264,472	\$207,509	\$207,509	\$207,509
Operating Expenses - PAD	\$21,888	\$23,088	\$23,088	\$23,088
Operating Expenses - TPR	\$1,796	\$0	\$0	\$0
Taxpayer Education	\$15,200	\$15,200	\$15,200	\$15,200
Orion Enhancement	\$493,020	\$0	\$0	\$0
Total Operating Costs	\$531,904	\$38,288	\$38,288	\$38,288
Equipment - PAD	\$14,700			
Total Equipment	\$14,700	\$0	\$0	\$0
Total Administrative Costs	\$811,076	\$245,797	\$245,797	\$245,797

35. Section 9 of this bill repeals 15-1-112, MCA (Business equipment tax rate reduction reimbursement to local government taxing jurisdictions). This reimbursement program ended after tax year 2007.
36. Section 13 is a contingent voidness clause providing that this act is void unless the 61st Legislature provides long term and equitable reimbursements to local governments, school districts, tax increment financing districts, and the 6 mill university levy for lost revenues.

Office of Public Instruction

Fiscal Impact on Expenditures

37. The decrease in property tax values due to exemption in not lien to real property in FY 2010 does not have a Guaranteed Tax Base Aid (GTB) effect on K-12 schools because GTB would have been determined before the effect of the bill takes place in FY 2010.
38. The reimbursement payments to be made to schools June 15, 2010, for all district funds, approximately \$7.1 million, will equal the amount of funding not available to schools in FY 2010 due to the impact of SB 490 and the effects of the class 8 exemptions on not lien to real property taxes collected in April 2010.
39. Section 1(3)(b) allows that the office of public instruction shall distribute, subject to an appropriation, the reimbursement amount for FY 2010 with the block grant payments.
40. The district reimbursements in TY 2011 and beyond would not be paid equal to the amount of the reduction in levy revenue to the same funds. Because of the loss of taxable value in TY 2010 there would be a one-time GTB impact to the state of \$2.34 million in FY 2011. In years following the reimbursements

would grow at the same rate as school block grants. It is assumed that districts would float their mill levies to make up the difference between reimbursements and foregone property tax values under this bill.

41. SB 490 provides county school levies for all district funds will be reimbursed for the loss in property tax due to the increase to class 8 property tax exemptions in TY 2010 and each subsequent year. There will be a cost to the state general fund of approximately \$19.8 million beginning in FY 2011 growing by 0.76% each subsequent year.
42. Countywide retirement GTB will increase \$0.74 million based on a historical average of 28% of the costs paid by the state and FY 2009 county levies equal to \$65.1 million (4.08% decrease in property tax value times \$65.1 million local levies times 28% paid by the state).
43. The bill does not specify that counties must deposit the county reimbursement into the retirement fund, so this fiscal note assumes the county would not deposit reimbursements into the retirement fund. Therefore there would be a one-time GTB offset at the county level of \$0.74 million.

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
<u>Fiscal Impact:</u>				
Department of Revenue				
FTE	4.00	3.00	3.00	3.00
<u>Expenditures:</u>				
Personal Services	\$264,472	\$207,509	\$207,509	\$207,509
Operating Expenses	\$531,904	\$38,288	\$38,288	\$38,288
Equipment	\$14,700	\$0	\$0	\$0
Reimbursements:				
Local Governments	\$5,963,053	\$16,303,592	\$16,931,606	\$17,423,131
Tax Increment Districts	\$1,949,348	\$5,384,818	\$5,384,818	\$5,384,818
University System (OCHE)	\$213,968	\$585,658	\$585,658	\$585,658
TOTAL Expenditures	\$8,937,445	\$22,519,865	\$23,147,879	\$23,639,404
<u>Funding of Expenditures:</u>				
General Fund (01)	\$8,937,445	\$22,519,865	\$23,147,879	\$23,639,404
<u>Revenues:</u>				
General Fund (01)	(\$2,579,535)	(\$6,748,757)	(\$6,322,523)	(\$6,500,797)
State Special Revenue (02)	(\$213,968)	(\$585,658)	(\$609,891)	(\$635,118)
TOTAL Revenues	(\$2,793,503)	(\$7,334,415)	(\$6,932,414)	(\$7,135,915)
Office of Public Instruction:				
<u>Expenditures:</u>				
Reimbursements:				
Local Assistance (General Fund)	\$5,223,069	\$13,744,919	\$13,849,380	\$13,954,636
Local Assistance (Other Funds)	\$1,853,006	\$5,118,686	\$5,157,588	\$5,196,786
Local Assistance (GTB)	\$0	\$2,341,802	\$0	\$0
Local Assistance (Co. Retire.)	\$0	\$743,840	\$0	\$0
TOTAL Expenditures	\$7,076,075	\$21,949,247	\$19,006,968	\$19,151,421
<u>Funding of Expenditures:</u>				
General Fund (01)	\$7,076,075	\$21,949,247	\$19,006,968	\$19,151,421
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$18,593,055)	(\$51,217,869)	(\$48,477,370)	(\$49,291,622)
State Special Revenue (02)	(\$213,968)	(\$585,658)	(\$609,891)	(\$635,118)

Effect on County or Other Local Revenues or Expenditures:**Department of Revenue**

- Counties, Local governments, and TIFs would be reimbursed for the loss of TY 2010 taxable value. To the extent that these reimbursements cover revenue losses local governments would not be allowed to raise their mill levies to recover revenue reimbursed by this bill. Any future short fall could be made up by raising mills.

Office of Public Instruction

2. It is possible that school districts' reimbursements will not equal the revenue decrease. Therefore, local taxpayers could have increased tax levies to make up the difference. Some of this would be permissive levy and some would be voted levy.

Technical Notes:

1. The federal 4R Act of 1976 provides the railroads with special protection from discriminatory taxation. The property tax rate for class 12 property (railroads and airlines) a result of the 4R Act. The act allows railroads to bypass the traditional appeal process and take discrimination cases directly to the federal district court. States that have increased commercial property exemptions have faced legal challenges by the railroads with adverse consequences for state and local revenue.
2. Under current law, entitlement share payments for tax increment financing districts that were in existence prior to the implementation of the entitlement share payment program have been the fixed amounts in 15-1-121(6)(b). These districts receive the benefits of growth through the increase in value within these districts from year to year. Under this law, these districts, as well as tax increment financing districts that came into being since 2000, will receive reimbursements for lost tax revenues due to this bill.
3. Under this bill, DOR can require taxpayer identification numbers for individuals involved in pass through entities. The same authority is not granted to prevent other taxpayers from seeking multiple exemptions.
4. Section 7 of this bill for the school bonds limitations adds new language to include the taxable value of personal property reported under 15-6-219, MCA. This would also include personal property that has been exempted previously. Personal property that has previously been specifically exempted in statute is not reported for property tax purposes, e.g. harnesses, tack, hand-held tools, household goods, bicycle, etc. Perhaps the citation should be 15-6-219(1)(f), MCA.

Sponsor's Initials

Date

Budget Director's Initials

Date